



## **SCOTTSDALE CITY COUNCIL AUDIT COMMITTEE**

### **Public Meeting**

**March 23, 2005, 3:00 p.m.**

**Kiva Conference Room, First Floor, City Hall**

**3939 N. Drinkwater Blvd, Scottsdale, AZ 85251**

### **AGENDA**

#### **CALL TO ORDER / ROLL CALL**

**MINUTES - Approval of January 20, 2005 Committee Meeting Minutes**

#### **GENERAL BUSINESS**

- 1. Update by City Auditor on Status of Current Work**
  - a. Medical Leave Payoff/Conversion Audit**
  - b. Asset Management Audits**
- 2. Discussion and Direction to City Auditor on Timing and Scope of Projects**
  - a. Timing and Scope for WestWorld Audit Added to the Audit Plan**
  - b. Prioritization of Audit Work for this Quarter**
- 3. Initiate Discussion on Length of Time to Retain Audit Reports**
- 4. Review Draft of Language to Allow Additional Time for Agency Response**
- 5. Update by City Auditor on Staffing and Budget**
- 6. Continue Discussion on Performance Measures for Office**

#### **PUBLIC COMMENTS**

#### **COMMITTEE COMMENTS**

#### **ADJOURNMENT**



Persons with a disability may request a reasonable accommodation, such as a sign language interpreter, by contacting the City Clerk's office at (480) 312-2412. Requests should be made as early as possible to allow time to arrange accommodation.

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**Audit Committee**

**Meeting Minutes**

**January 20, 2005**

**Council Conference Room, Second Floor, City Hall  
3939 North Drinkwater Boulevard  
Scottsdale, AZ 85251**

**Members Present:** Chairman Lane  
Committee member Ecton  
Committee member Littlefield joined the meeting at 3:48 p.m.

**City Staff Present:** Cheryl Barcala, City Auditor  
Lisa Blyler, Assistant to the Mayor and Council  
Craig Clifford, Financial Services General Manager  
Myron Kuklok, Risk Management Director  
Brent Stockwell, Assistant to the Mayor and Council

The meeting was called to order at 3:36 p.m. by Chairman Lane.

Minutes of the January 11, 2005, Audit Committee Meeting were approved by a vote of 2/0.  
Committee member Littlefield was not yet present.

**General Business:**

**Item 1** – The Safety Program Audit Report was reviewed and items on the cover memo from Ms. Barcala were addressed. Item 1 stated that a tracking mechanism for safety-related costs is not in place. This inhibits the ability to determine if adequate funding is provided. The costs are being buried within individual departments. The Smith Driving School is one example of a program that gets lost within the Police Department's costs. Committee member Ecton asked if the dollars spent on safety actually reflect the quality of the safety program in general. He does not feel it is necessary to know exactly what is spent. Mr. Clifford commented that the audit was appreciated and recommendations, for the most part, were agreeable to Management. He stated that the effectiveness of Risk Management relies on a focus on safety and mitigation of claims. He informed the Committee that the entire amount spent on the Risk Management Program is approximately \$5 million. He provided a list of estimated safety program costs. It included paid losses and administrative expenses, which are allocated back to specific departments based on headcount and payroll measures. Mr. Clifford stated that while there is no specific center that aggregates a set dollar amount to each department, the dollars can in fact be estimated and are illustrated in the list provided. A total cost column lists close to \$900 thousand and indirect costs total almost \$400 thousand. The direct department costs are charged back to each department. Risk Management is deemed the overseer of the safety program within City Code. Mr. Clifford added that regardless of the system used to track expenses, there is no finite and conclusive mechanism to determine the exact amount since many of the safety and risk-related programs go hand-in-hand. He feels this is a judgment call for Management and that the estimates will become more accurate with time and experience. Committee member Ecton inquired about the

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ability to track time sheets, safety shoe purchases, etc. He wondered if accounts could be established to monitor these types of expenses. Mr. Clifford stated that there are specific accounts in which to charge protective related equipment. Mr. Clifford then stated that the estimated information would prove beneficial in an annual format, which he intends to provide within the Risk Management Report. He reiterated that the audit was helpful in pointing out this need, but tracking of expenditures too closely will only result in an additional expense to track those expenditures and not necessarily add to the value of the program. He stated that if resources were unlimited to perform such tasks he would oblige without objection. Committee member Ecton pointed out that the Committee is not there to decide what Management should do, but to be aware of the recommendations of the Auditor. Mr. Clifford informed the Committee that approximately \$390 is spent on each employee per year for safety. However, training occurs for employees that need it, so this number reflects an average only. It would not make sense to impose training on employees who have no need for it. Committee member Littlefield prompted clarification by stating that two issues were at hand: the first is the question of a City Code requirement and the second concerns whether staff in need of training are receiving it. Ms. Barcala stated that there is in fact adequate management of the safety program by Risk Management, so Code is not being violated. She added that if more detail is available on the costs incurred related to the program, however, there will be more assurance for future funding, and that dollars are not used in areas that are not specifically allocated for training, materials, equipment, etc. Mr. Kuklok reiterated that over time, the estimates would be more precise. Mr. Clifford reiterated that he hesitates to add costs to a program only for the purpose of tracking the costs. He stated that Risk's view is more conservative than that of OSHA. Mr. Clifford also noted that the City has chosen not to have line item controls within the budgetary process due to the size of the City's budget. Committee member Ecton reiterated that the purpose of the agenda item was to gain understanding, not to direct Management and that the next item should be addressed.

Item 2 of the memo addressed the lack of definition or delineation between Safety and Loss Prevention Programs. Ms. Barcala stated that the terms seem to be used interchangeably within Risk Management documentation. Mr. Kuklok commented that a new AR is in the process of revision to implement Ms. Barcala's recommendations. He added that OSHA does not delineate much between the two terms and has no concern as to what amount is spent on the programs. They are merely concerned with effectiveness and adherence to requirements. Ms. Barcala added that policies and procedures for the department itself should be in place for the administration of the safety programs. She noted that City Code currently exists which discusses departmental management, however, Code is a higher level of written direction and departmental level procedures should be documented as well, as with any department. Mr. Kuklok responded that each staff member has procedures written related to their specific job within Risk Management. Mr. Clifford added that he has already addressed this issue with Mr. Kuklok noting that while there are many good training programs in place, there is no "front end to the train." He acknowledged the need for consistency in referencing and nomenclature. He felt that it was a matter of syntax and hair-splitting. He noted that while no comprehensive policies and procedures are in place for the department, there are limited resources available to create such documentation.

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Item 3 noted that an incorrect term had been used, and should be listed as biennial, not bi-annual. Mr. Kuklok agreed.

For the final item on the memo, item 4, discussion centered on whether specific positions should be reviewed to determine whether or not certain types of safety-related training is needed. While Ms. Barcala noted that training is not occurring for all individuals, even those deemed appropriate for such training, Mr. Kuklok noted that the approach is more conservative than what is required and any staff who have not been properly trained will either be trained or have already been trained but there is an error in the department's recordkeeping. Every effort will be made to double-check records so that training occurs where needed. Committee member Littlefield was concerned that some staff members are not getting the training they need. He inquired as to where the responsibility lies. Mr. Kuklok answered that Risk Management is responsible and the staff member's General Manager will be contacted to ensure training is obtained once the records have been reviewed and/or updated.

**Item 2** – Ms. Barcala introduced the material provided in the agenda packet. She elaborated on Attachment 1, which spells out the purpose of the Performance Management System. Items from Committee member Ecton's e-mail to Ms. Barcala of May 3, 2004, were discussed. The first item was rejected since many recommendations do in fact save costs in process time etc., but the savings are not always measurable. Committee member Ecton stated that his goal with the item was to advocate hard dollar savings through recommendations versus additional costs incurred to implement recommendations. There was debate as to whether the second item was reasonable, in that outside influence is possible when there is pressure to make recommendations which will be accepted by Management. Chairman Lane wanted to ensure that no frivolous recommendations were made, but that writing them toward the goal of Management approval hinders objectivity. Committee member Ecton noted that he and Ms. Barcala had spoken in great detail about the list of items and is open to any input from the rest of the Committee. Mr. Stockwell noted that the Performance Measures portion of the budget process was being reviewed for all departments. It was agreed that the Committee would further review the list and Performance Measures would be addressed in the future.

**Item 3** – Ms. Barcala noted that the Audit Plan is scheduled for Council approval on February 8, 2005. She expressed a need for direction to begin the next audit. It had been decided at the last Audit Committee Meeting that staff would conduct two HR related audits as upcoming projects. The Committee voted unanimously to authorize the initiation of work for the medical leave/payoff conversion audit to begin, with Committee member Ecton voicing concern over Management's ability to participate at this time. Mr. Shearer stated that to his knowledge there are tight practices in place internally for this program and an audit right now would not pose any major disruption to HR staff.

**Item 4** – Written preliminary surveys on the Asset Management Audit were submitted to the Audit Committee. At this time, there is no tracking mechanism for purchases less than \$5,000; therefore, there is nothing to audit. An audit could occur for property over \$5,000. No master lease list is available as leases are kept at various locations. While the City Attorney's Office may sign off on Council Actions related to leases, no tracking of such leases is available.

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**Public Comments** – None.

**Committee Comments** – None.

It was noted that the next meeting should occur March 23, 2005, unless another report is released before that time.

With no further business to discuss, the public meeting of the Audit Committee was adjourned at 5:35 p.m.

Respectfully submitted,

Melissa Preston

## COMPLIANCE AUDITS

### **1) Calculation of Downtown EMSD Assessment and Use of Funds**

*Audit calculation of the assessment for the Downtown EMSD and use of funds for compliance with the formula established at inception and provisions setting out the purpose of the assessment.*

### **2) Streetlights**

*Audit the billing rate and number of fixtures charged by SRP for non-district streetlights.*

### **3) Payroll**

*Audit rate of pay and deductions to verify that 1) pay calculations agreed with rate set at last review and 2) deductions agreed with source documents used to generate the request for deductions.*

### **4) Use of Revenue Collected Under Section 24.34 of the City Code, "Solid Waste Management Reserve Fund"**

*Audit use of funds for compliance with requirements set out for the Solid Waste Management Reserve Fund established in 1992. Revenue for the Fund is generated by a 25 cent per month fee to all residential and commercial refuse accounts as well as each "pull" for a roll-off container.*

### **5) Controls Over the Tracking of Citations**

*State law sets out a requirement for an appropriate control environment to ensure that each citation issued is deposited with the court having jurisdiction. This audit would look at the controls in place to ensure that unused citations are properly controlled, that issued books of citations are tracked to ensure that each individual citation is returned, and the procedures in place to ensure that each issued citation reaches the court system.*

### **6) Software Licensing**

*This audit would look at the controls used by Information Systems to ensure that only licensed versions of software are installed on City owned computers.*

### **7) Use of the Percent for Arts**

*In 1989, the City adopted Ordinance 2054 setting out a requirement for 1 percent of the amount budgeted for capital improvements to be appropriated to the Fine Arts Trust Fund. This audit would verify compliance with the requirement for appropriation and use of funds.*

### **8) Audit of the City's Public Art Collection**

*Under Contract #970044, the Scottsdale Cultural Council has certain responsibilities for the oversight of the City's Art. This audit would verify compliance with contractual requirements for the care and maintenance of the City's Public Art and verify the inventory of artwork.*

### **9) Contract with the Scottsdale Cultural Council**

*In 1997, the City entered into a restated agreement with the Scottsdale Cultural Council for advisory and planning related to arts and culture as well as management of art facilities owned or leased by the City. This audit would verify compliance with contractual requirements and reports provided to the City. It would not include contractual requirements that relate to the care and custody of the City's Public Art Collection.*

### **10) Classification and Pay Plan**

*City Ordinance requires the establishment and maintenance of a classification plan. Annually, a Classification and Pay Plan (also known as the Classification/Compensation Plan) is to be approved (by the City Council) setting forth the titles, number of positions, and salary maximums for positions. Once approved, the City Manager has authority to make amendments to the Plan any time during the year. This audit would verify compliance with City Code requirements for the maintenance of a classification plan and annual approval.*

## INTERNAL CONTROL

### **1) Calculation of Medical Leave Pay-Off or Conversion**

*City Code, Section 14-83, sets out a provision for employees, at retirement, to receive partial credit for unused medical leave through cash payouts (employees hired before July 1, 1982) or conversion to a funding source that can be used to pay insurance premiums if the employee continues to participate in a City medical plan. This audit would verify that appropriate controls are in place, test compliance with requirements, and verify the tracking of future liabilities associated with future payouts and/or insurance premiums.*

### **2) Collection of Fees at the Airport and Airpark**

*City Code sets out a requirement for payment of monthly business fees as a condition of operating an aeronautical business at the Airport. Other fees are also set out in the Minimum Operating Standards and the Rates and Fees Schedule. As well, certain leases require payment for use of the facility or land. This audit would look at the procedures in place to grant permits and collect fees.*

### **3) Handlebar Helper Program**

*The City co-sponsors Handlebar Helper by providing staff resources and other assistance. This audit would look at the objectives of the program, outcomes, and costs. As well, controls over donations would be examined to ensure that there are sufficient safeguards to ensure that donations are actually used for program delivery.*

### **4) Collection of Premium Payments for COBRA and Retiree Participants**

*In certain situations, individuals no longer employed by the City may continue to participate in City funded health insurance programs. When this occurs, the individual seeking coverage is responsible for payment of the full premium. This audit would look at the controls in place to ensure that premiums are correctly collected, recorded to the correct account, and that procedures are in place to ensure that coverage is terminated when payment is not received.*

### **5) Controls Over the Use of Funds for the Neighborhood Enhancement Partnership**

*The Neighborhood Enhancement Partnership Program is a funding opportunity for neighborhood based improvement projects and/or applications that represent a community-based activity or project. Funding is currently provided through a Capital Improvement Project and guidelines for use of the funds have been developed. This audit would look at the controls over the expenditure of funds.*

### **6) Controls Over the Use of Funds for Plumbing and Landscape Conversion Rebates**

*The Water Conservation Program in Water Resources offers rebates for plumbing conversions (toilets and showerheads) in structures built prior to 1992. Rebates are also offered when property, connected to the City's water system, is landscaped with low-water use plants. This audit would look at the controls over the use of the funds and the results achieved*

### **7) Sheriff Billings**

*This audit would look at the procedures in place at the Court to reconcile the monthly billings from the Maricopa Sheriff's Office for the housing of prisoners.*

### **8) Bus Cards**

*As part of the effort towards trip reduction, the City provides Bus Cards for employees wanting to use public transportation to and from work. This audit would look at the procedures in place to review and approve expenditures to ensure that the City only pays costs related to transportation of City employees to and from work.*

## PROGRAM EFFECTIVENESS

### **1) Use of the Additional Tax Imposed on Transient Lodging**

*In May 2004, modifications to the City Ordinance changed the allocation of the additional tax (also known as the bed tax) imposed on transient lodging. Under current provisions, 80 percent of the revenue derived from this tax is to be used for hospitality development (including destination and event promotion), visitor related capital projects, and visitor research. This audit would look at the process used to segregate this revenue and the expenditures funded with the revenue. Because the Tourism Development Commission serves as the advisory body for use of the funds, the audit would include a review of the process used to forward requests to the Commission, the review process, and the subsequent approval by the Council.*

### **2) Alarm Permit Fee and False Alarm Service Charges**

*Scottsdale Revised Code, Chapter 3, sets out requirements for alarm permits, service charges for false alarms, and fees associated with the failure to obtain a permit. This audit would look at compliance with the requirements to obtain an alarm permit and the process currently in place to collect false alarm service charges.*

### **3) Replacement Funding for Computers, Servers, and Network Components**

*The City provides funds for computers, servers, and network component replacements through the use of capital project accounts. This audit would look at the process used to establish the appropriation to the three capital project accounts and the use of the funds.*

### **4) Software Licensing and Maintenance**

*This audit would look at the procedures used to establish the routine charge to departments/divisions for software licensing and maintenance and the expenditure of funds.*

### **5) Issuance of Citations for Zoning Violations**

*City Code provides the authority to issue civil citations for zoning violations. This audit would examine the process under which these citations are issued, the tracking systems in place to ensure that citations are properly accounted for, and the collection of any sanctions.*

### **6) Sculpture in Public Places Program**

*In 1991, the City adopted Ordinance #2408 setting out the creation of a Sculpture In Public Places Program. This audit would examine the creation, implementation, and results of the Sculpture In Public Places Program.*

## PRE-IMPLEMENTATION REVIEW

### **1) Sales Tax and Business Licensing Application Project**

*A pre-implementation review of project planning, general requirements, project management, conversion plans, testing, and implementation plans for the new Sales Tax and Business Licensing Application.*



## **Sec. 2-126. Audit reports to city council.**

- (a) Each audit will result in a written report.
  - (b) The city auditor shall submit each audit report to the city council and shall retain a copy in his/her office as a ***permanent record***. A copy shall be filed with the city clerk and the city public library. A copy of each report shall be transmitted to the city manager.
  - (c) If appropriate, the audit report shall contain the professional opinion of the city auditor or the contract auditor concerning the financial statements issued by the department, board or agency; or if the audit is an expanded scope audit, the report will contain the professional conclusions of the audit regarding the management activities audited.
  - (d) The city auditor shall include in the audit reports:
    - (1) A precise statement of the scope encompassed by the audit;
    - (2) A statement that the audit was performed in accordance with generally accepted government auditing standards;
    - (3) A statement that an examination for compliance with applicable laws, policies and regulations was conducted and presentation of the findings associated with that examination is included;
    - (4) A statement of the significant audit findings, including a statement of the underlying cause, evaluative criteria used and the current and prospective significance of the findings;
    - (5) A statement that internal control systems were examined where applicable and a report of any material weaknesses found in the internal control systems;
    - (6) Statements of response submitted by the audited department, board or agency relevant to the audit findings;
    - (7) A concise statement of the corrective actions previously taken or contemplated as a result of the audit findings and a time table for their accomplishment;
    - (8) Recommendations for additional necessary or desirable action.
- (Ord. No. 2236, § 1, 5-1-89)

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- (a) Each audit will result in a written report.
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- (c) If appropriate, the audit report shall contain the professional opinion of the city auditor or the contract auditor concerning the financial statements issued by the department, board or agency; or if the audit is an expanded scope audit, the report will contain the professional conclusions of the audit regarding the management activities audited.
- (d) The city auditor shall include in the audit reports:
  - (1) A precise statement of the scope encompassed by the audit;

- (2) A statement that the audit was performed in accordance with generally accepted government auditing standards; policies and regulations was conducted and presentation of the findings associated with that examination is included;
  - (4) A statement of the significant audit findings, including a statement of the underlying cause, evaluative criteria used and the current and prospective significance of the findings;
  - (5) A statement that internal control systems were examined where applicable and a report of any material weaknesses found in the internal control systems;
  - (6) Statements of response submitted by the audited department, board or agency relevant to the audit findings;
  - (7) A concise statement of the corrective actions previously taken or contemplated as a result of the audit findings and a time table for their accomplishment;
  - (8) Recommendations for additional necessary or desirable action.
- (Ord. No. 2236, § 1, 5-1-89)

**CITY OF SCOTTSDALE**  
**MONTHLY EXPENDITURE REPORT**  
*Line Item/Center*

As of Period: 8 Feb  
 FYE: 2004  
 Run Date: 03/03/2004

Account	Description	CURRENT		YEAR TO DATE				FISCAL YEAR BUDGET			
		Month	Expenses	Approved Budget	Expenses	\$ Variance	% Var	Adopted Budget	Budget Adjustments	Approved Budget	Unexpended Budget
52840	FREIGHT, STORAGE & TOWING	0	0	0	0	0	0	0	0	0	0
52850	CAR ALLOWANCE/MILEAGE REIMBUR	277	2,542	2,430	112	4	3,814	0	3,814	1,384	0
52800	SUBSCRIPTIONS & MEMBERSHIPS	0	1,719	2,146	-427	-25	3,437	0	3,437	1,291	0
52805	CITY MEMBERSHIPS	0	250	0	250	100	250	0	250	250	0
52820	DAMAGE CLAIMS	0	0	0	0	0	0	0	0	0	0
52875	LICENSES & PERMITS	0	0	0	0	0	0	0	0	0	0
52901	PRIOR YEAR CARRYOVER	0	0	0	0	0	0	0	0	0	0
<b>Total</b>	<b>52 Contractual Services</b>	<b>938</b>	<b>19,173</b>	<b>15,574</b>	<b>3,599</b>	<b>19</b>	<b>26,188</b>	<b>0</b>	<b>26,188</b>	<b>10,614</b>	<b>0</b>
53020	OFFICE SUPPLIES	7	2,667	418	2,249	84	4,000	0	4,000	3,582	0
53025	MINOR EQUIPMENT	0	0	0	0	0	0	0	0	0	0
53030	EDUCATION & RECREATION SUPPLIES	190	599	767	-168	-28	899	0	899	132	0
53055	SAFETY & INCENTIVE AWARD	0	0	0	0	0	0	0	0	0	0
53060	PHOTOGRAPHIC & DUPLICATING SUP	0	0	0	0	0	0	0	0	0	0
53090	OTHER OPERATING SUPPLIES	0	25	0	25	100	50	0	50	50	0
53095	PURCHASING CARD EXPENSE	0	0	0	0	0	0	0	0	0	0
<b>Total</b>	<b>53 Commodities</b>	<b>198</b>	<b>3,291</b>	<b>1,185</b>	<b>2,106</b>	<b>64</b>	<b>4,949</b>	<b>0</b>	<b>4,949</b>	<b>3,764</b>	<b>0</b>
54350	CITY FORCE - OTHER	0	0	0	0	0	0	0	0	0	0
54522	COMPUTER EQUIPMENT	0	0	0	0	0	0	0	0	0	0
<b>Total</b>	<b>54 Capital Outlays</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total: 01070 CITY AUDITOR</b>		<b>46,238</b>	<b>432,373</b>	<b>407,689</b>	<b>24,684</b>	<b>6</b>	<b>657,261</b>	<b>0</b>	<b>657,261</b>	<b>249,574</b>	<b>0</b>



City Auditor's Office

# Memo

To: Audit Committee  
From: Cheryl Barcala, City Auditor  
Date: January 11, 2005  
Re: Initiation of Discussion of Performance Measures

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To facilitate the discussion of performance measures for the Office I am providing a brief discussion on the purpose of a performance management system as described by the Government Finance Officers Association, a summary of the office purpose, the mission statement that we use, and the performance measures currently in place (Attachment 1).

I am including a summary of the reporting structure for Tempe, Phoenix, Glendale, Maricopa County, and Mesa as well as the latest performance measure information that I have for those organizations. Within the documents you will find a list of suggested performance measures taken from other organizations and presented by the Government Finance Officers Association for consideration (Attachments 2 and 3).

I am providing a copy of a document prepared by the Budget Office for use in preparation of the 2004/05 budget. This document presents information from the Government Finance Officers Association Publication, "An elected Official's Guide to Performance Measurement" (Attachment 4).

Finally, I am including a document prepared and forwarded to Councilman Ecton last May outlining some draft performance measures that could be considered.

PERFORMANCE MEASUREMENT SYSTEM IS INTENDED TO PROVIDE ACCOUNTABILITY TO CITIZENS REGARDING THE RELATIONSHIP BETWEEN A PROGRAM'S INPUTS AND ITS ULTIMATE PURPOSE. IT USES PERFORMANCE MEASUREMENTS TO ASSESS, MONITOR AND IMPROVE THE ACCOMPLISHMENT OF PROGRAM AND SERVICE DELIVERY GOALS AND OBJECTIVES.

Source: "An Elected Official's Guide to Performance Measurement", Government Finance Officers Association

<u>Purpose</u> Program DEscription – generally set out in enabling legislation	<u>Goal</u> Broad Operational statement of what the program is to achieve at some point in the future	<u>Objective</u> <b>Something to accomplish in specific, well- defined and measurable terms- achievable within a specified time period</b>	<u>Measure</u> <b>Outputs Outcomes Effectiveness Efficiency</b>
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## PURPOSE OF THE OFFICE –

Charter – Examine and verify such affairs as the council may direct.

Ordinance – Conduct expanded scope audits of all departments, offices, boards, activities and agencies of the city to independently determine whether:

1. Activities and programs being implemented have been authorized by the city council, state law, or applicable federal law or regulations;
2. Activities and programs are being conducted in a manner contemplated to accomplish the objectives intended by the city council, state law or applicable federal law or regulations;
3. Activities or programs efficiently and effectively serve the purpose intended by the city council, state law or applicable federal law or regulations;
4. Activities and programs are being conducted and funds expended in compliance with applicable laws;
5. Revenues are being properly collected, deposited and accounted for;
6. Resources, including funds, property and personnel are adequately safeguarded, controlled and used in a faithful, effective and efficient manner;
7. Financial and other reports are being provided that disclose fairly and fully all information that is required by law, that is necessary to ascertain the nature and scope of programs and activities and that is necessary to establish a proper basis for evaluating the programs and activities;
8. During course of audit work, there are indications of fraud, abuse or illegal acts; and
9. There are adequate operating and administrative procedures and practices, systems or accounting internal control systems and internal management controls which have been established by management.

**MISSION FOR THE OFFICE:**

The City Auditor responds to City needs by providing independent research, analysis and consultative and educational services to promote operational efficiency, effectiveness and integrity. The City Auditor's Office also performs the functions of False Alarm Hearing Officer, Property Disposition Hearing Officer and Taxpayer Resolution Officer.

**Program Description:**

The Internal Audit program conducts expanded scope audits of departments, offices, boards, activities and agencies of the City.

**Objectives for 2004/2005:**

1. Complete the audits on the 2004 audit plan in a timely, professional manner focusing on improvements in efficiency and program delivery.
2. Continue to adhere to auditing standards by ensuring that staff have appropriate training, outline the objectives sufficiently and carry out the necessary work.
3. Continue to conduct hearings in accordance with regulations in a timely manner.

**Performance Measures:**

Outputs –

1. Number of audits performed
2. Number of property hearings held.

Outcomes –

1. Number of recommendations made to City departments as a result of audits.
2. Percentage of recommendations accepted by management.

## Surrounding Communities

### **Tempe** –Direct report to City Manager

Measure reported in budget document – number of projects

### **Phoenix** – Report to City Manager

Measures:

- Cost of audit/management services.
- % of audit plan projects completed year-to-date
- % of commitment dates met year-to-date

### **Glendale** –Report to City Manager

Measures:

- % of recommendations implemented by staff
- % of reports distributed to city management and the respective city departments.

### **Maricopa County** – Report to Board of Supervisors

Measures:

Audit Services

- % of IA recommendations concurred with by clients
- % of IA recommendations implemented within three years

Management Services

- % satisfaction rating from customers indicating consulting services delivered by IS helped them do their job
- % satisfaction rating from customers indicating that educational efforts help them do their job more effectively
- % overall approval rating for Internal Audit's strategic information reports by Board of Supervisors and key County management.

### **Mesa** – Report to Manager

No performance measures

Attachment 3**GENERAL GOVERNMENT***Debt Administration*

General government obligation bond rating (Moody's/S & P)  
Net debt service reductions due to freezing of reserves (millions \$)  
Net gain from escrow swaps (millions \$)  
Number of error/delays in debt service payments  
Percent of bond insurance projects completed within 120 days  
Percent of bond issues prepared timely  
Percent of bonds monitored  
Present value savings (millions \$)

*Internal Audit*

Amount of new business license tax revenue generated as a result of revenue audit efforts  
Cost savings/revenue enhancement realized  
Internal control deficiencies corrected  
Operational management records corrected  
Overall audit effectiveness survey rating obtained from auditee survey (low = 1, high = 5)  
Percent of annual audit goals completed  
Percent of audit recommendations which receive audit follow-up  
Percent of audit staff with professional certification (CPA, CIA, CISA)  
Percent of audits completed on schedule  
Percent of bad debts from audit  
Percent of completed audit reports resulting in recommendations for improved productivity, cost savings or increased internal control  
Percent of completed audit reports which are acceptable to finance director  
Percent of reports to county auditor in proper form  
Percent of requests for assistance in developing/enhancing system controls and procedures which are responded to and for which a work plan is developed  
Percent of requests for assistance in developing/enhancing system controls and procedures which have been addressed  
Average cost per audit hour





August 26, 2003

***Re: Program Structure and Performance Measure Refinement***

Dear Budget Liaisons:

As mentioned during the budget meeting on Monday, August 25, we need to focus our efforts on enhancing the program performance measures and their relationship to the program's goals and objectives in the FY 2004/05 budget process. The use of meaningful and relevant performance measures is a key part of our ongoing effort to engage a broader and more diverse group of citizens in the city's budget process.

Before the budget process kicks into high gear this fall, please review and consider refinements to your current program structure for the FY 2004/05 budget. Some of you have expressed an interest in expanding your programs to better reflect the services offered to your various customers. Further refinement and breaking down your programs will assist you in developing performance measures that appropriately address the specific services provided by a program. Additionally, this refinement will help you to prioritize your programs, which as I noted is another key consideration for the FY 2004/05 budget development process.

After you are comfortable with the program structure, please evaluate the relationship of the program's goals, objectives and performance measures. To assist you with this effort, I am forwarding to you excerpts from the GFOA publication entitled "*An Elected Official's Guide to Performance Measures*". This is a user-friendly guide that provides the reader with a logical process of defining a program, establishing goals and objectives and ultimately linking to a performance measure. As you review your performance measures, I strongly encourage you to work closely with your budget office contact to accomplish this key task in the FY 2004/05 budget development process.

In addition, we would like all center/program changes or additions for FY 2004/05 to be submitted to the Budget Office by **no later than Friday, September 26, 2003**. Please call your budget contact if you need assistance.

August 26, 2003

Thank your for your cooperation and assistance. We look forward to working with you on your FY 2004/05 Program Budget.

Sincerely,

A handwritten signature in black ink, appearing to read "Art Rullo", written in a cursive style.

Art Rullo  
Budget Director

cc: Budget Staff

Enclosure

## BASIC QUESTIONS

### *What is a program?*

GFOA's publication *The Best of Governmental Budgeting* defines a program as "a group of related activities performed by one or more organizational units for the purpose of accomplishing a function for which the government is responsible". In terms of a specific program, this means that organizational units responsible for administering and managing a program intend to accomplish their specific mission, goal, objectives, and outcomes, such as a comprehensive public safety program (emergency medical services, fire, and police) reducing the per capita fatality rate due to crime. In essence, governmental agencies perform services designed to meet short and long-term goals and objectives and to meet citizen preferences.

#### **FYI...**

If you currently have a multifaceted program (i.e., meaning many different services are provided under the "umbrella" of the program), you might consider creating other programs (and a new cost center(s)) that address the essential services provided by the program.

### *What is the purpose of a program?*

Each publicly funded program has a specific purpose and intended outcome. A program's purpose or scope is generally specified in its enabling legislation, intergovernmental agreement, or in its contract with a vendor. For example, a government's public safety program exists to apprehend offenders, decrease crime, and deter criminal activity within the jurisdiction by enforcing ordinances. Some publicly funded programs are mandatory (e.g., education), while others are voluntary (e.g., recreation programs). By specifying a program's mission, program administrators are in a better position to identify subprograms and activities that are relevant to gauging the accomplishment of goals and overall organizational performance. This also helps to establish short- and long-term program goals and objectives.

### *What is a goal?*

GFOA's publication *The Best of Governmental Budgeting* defines a **goal** as "a statement of broad direction purpose or intent based on the needs of the community." Basically, a goal is a broad operational statement of what a program expects to achieve sometime in the future, thus providing a general description of an overall desired end state. For example, a goal can be to have citizens live without the fear of crime. A more narrow goal can be to reduce inner city crime by 10 percent over the next two years.

### *What is an objective and its criteria?*

An **objective** refers to something that is to be accomplished in specific, well-defined, and measurable terms and that is achievable within a specific time frame. From a programmatic perspective, an objective is a defined method to accomplish an established goal.

Objectives should meet the following criteria:

- They should be related to a department's predefined goals (i.e., attaining the objective should move a government toward accomplishing the predefined goal);
- They should be specific to a program or service;
- They should be results-oriented;
- They should be measurable; and,
- They should be attainable within a specified time frame (e.g., six months, one year).

#### **FYI...**

Well-written Objectives are **SMART!**

Specific

Measurable

Aggressive but Attainable

Results-oriented

Time-bound

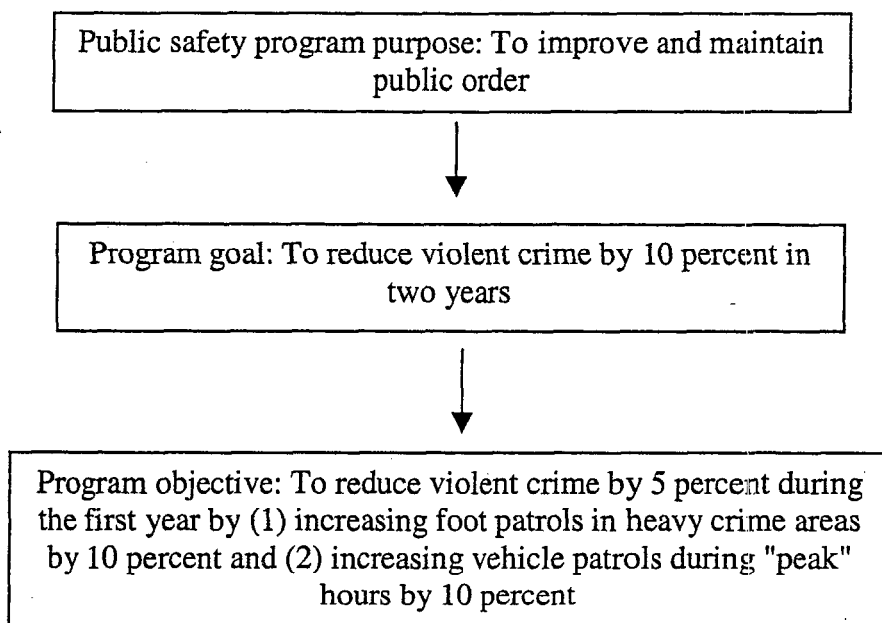
### *How are program goals and objectives related?*

As covered previously, a well-stated objective should relate to a program goal. Because goals are broad statements of what a program wants to achieve, objectives are statements that specify how the goal is to be met. For example, a public safety program may state that its goal is to reduce crime by 10 percent in two years; its objective may be to reduce crime by 5 percent in the first year by increasing the number of foot patrols in heavy crime areas by 10 percent.

Exhibit 1 illustrates the relationship between a program goal and its objectives.

## EXHIBIT 1

### Relationship Between a Public Safety Goal and Objective



### *Who are the program's customers?*

In recent years, state and local governments have adopted the idea that they should be customer-driven and service-oriented. Because government officials view citizens as customers, these officials have begun transforming their organizations from cold, inert bureaucratic structures into dynamic, effective, efficient, and customer-friendly providers of public goods and services. Additionally, this customer-driven orientation helps program and service managers to:

- Address performance issues related to their scope of service;
- Incorporate customer preferences; and,
- Generate alternative solutions and strategies for improving program performance.

In this service-oriented environment, the citizen-as-customer is an active participant in the production and delivery of public goods. Such citizens also know what is expected from them when receiving public programs and services. In turn, governments are undertaking strategies to meet their customers' needs and preferences.

For government programs and services, customers are the beneficiaries of public goods and services. Operationally, customers represent a percentage of the **target population** (i.e., the individuals that a program or service was designed to serve based on eligibility, need, or demand) who receive and benefit from public goods and services. For instance, in the case of a government's public safety program, the target population is comprised of citizens, businesses, and visitors to the jurisdiction. However, the program's actual customers are the individuals who have received public safety services. Because persons served by governments are often viewed as a captive audience without a choice, the usage of the term customer may seem odd in the

public sector. In reality, however, residents, taxpayers, and visitors exercise their choice by either participating in or abstaining from various programs and services. In the case of public safety, individuals exercise their choice by deciding whether they will report a crime in progress or file charges against an assailant. Furthermore, they have the ability to move out of a jurisdiction if they are dissatisfied with a service.

Performance measurement introduces the concept of the market segment (i.e., those individuals who are potential users of the program or service offered) into the development of customer-based measures (e.g., cost per customer served and the number of customers served by program administrators). Typical terms used to define customers of publicly funded programs include clients, patients, individuals at risk, and, in the case of law enforcement, offenders and victims. To generate reliable and valid performance measures, it is important to identify specific customers of a program.

A critical factor for predicting program success is the extent to which program administrators know the population they serve. Specifically, identifying a program's customer base is essential for creating a profile of the typical client, understanding their needs for services, and for estimating future demand for services.

### ***What are program processes?***

***Program processes*** refer to the activities that convert inputs into outputs so that a stated goal and objective can be accomplished. To convert inputs into an output, a program requires service demands to utilize its resources to deliver a service. In a hypothetical public safety example, after a customer reports a crime in progress, typically the police department dispatches a patrol car to the crime scene, which in turn results in the perpetrator's apprehension.

To document program processes, program administrators may use techniques like process mapping to chart and demonstrate the relationship of sequential tasks between several inputs and the outputs they produce. Techniques like process mapping can reveal a "cause and effect" relationship between inputs and outputs that can be used to redesign or reengineer a program. When service delivery involves the coordination between multiple departments, examining program processes is important to minimize service delivery delays and bottlenecks.

### ***What are inputs?***

***Inputs*** are resources allocated for performing work processes so that stated goals, objectives and outcomes can be achieved. Generally, program inputs include employee salaries (i.e., labor), equipment (e.g., computers, vehicles, telephones, copiers), materials (e.g., asphalt, concrete), and supplies (e.g., paper, pens). Other inputs may include the rental of conference rooms for employee testing or other activities that are related to performing program activities.

In addition to these inputs, some programs may receive inputs from other departments or units. These inputs should be taken into account when assessing the total cost of providing a program or service. In a line item budget, program inputs are represented by budget appropriations. Exhibit 2 illustrates the line item budget appropriations (i.e., program inputs) for the police department of the city of Oakland, California.

## EXHIBIT 2

### City of Oakland Police Services Agency

Division	Line Item	1999 Appropriation
Agency Administration	Personnel Services	\$2,802,268
	Operations & Maintenance	1,617,357
	Capital Outlay	0
	Total Budget	\$4,419,625
Investigations	Personal Services	16,804,518
	Operations & Maintenance	1,589,884
	Capital Outlay	179,500
	Total Budget	18,573,902
Services	Personal Services	21,040,274
	Operations & Maintenance	13,661,851
	Capital Outlay	1,133,049
	Total Budget	35,835,174
Field Operations	Personal Services	65,116,407
	Operations & Maintenance	3,563,952
	Capital Outlay	215,002
	Total Budget	68,895,361
	<b>Total Appropriation</b>	<b>\$127,724,062</b>

#### *What are outputs?*

**Outputs** are goods and services performed by a government unit and/or delivered to customers. Outputs can be produced for internal or external customers. Internal customers are recipients of services within the government organization from other departments or units, while external customers are generally residents, taxpayers, businesses, and other governments.

Police departments produce numerous program outputs for external customers, such as:

Activity	Outputs
Enforcing municipal laws and ordinances	Number of infractions processed by type (e.g., traffic violations, disorderly conduct)
Making arrests	Number of investigations conducted
Patrolling streets and neighborhoods	Number of patrols undertaken
Solving crimes	Number of crimes investigated

Within the police department, several units may provide services to other units for conducting investigations, enforcing laws, and achieving the department's goals and objectives. In this case, the internal customers of the police department are the units that receive goods and services from other units within the department, such as:

Police Department Unit	Service	Internal Customer	Output
Communications	Dispatching	Precincts	Number of emergency dispatches by precinct
Human Resources	Recruitment, training, personnel planning	Community Policing Unit	Number of new police officers hired for community policing
Information Technology	Graphic Information Services (GIS)	Community Policing Unit	Number of patrols in high crime areas

#### *What are program outcomes?*

Outcomes are the intended results that should be achieved by a governmental agency or unit responsible for undertaking a specific goal and objective. For a public safety program, one outcome of a community-policing program could be the reduction of the crime rate within a specific neighborhood or geographical area. Another outcome could be an increase in reported crime as community-police relations improve. A third outcome could be a reduction in juvenile delinquency

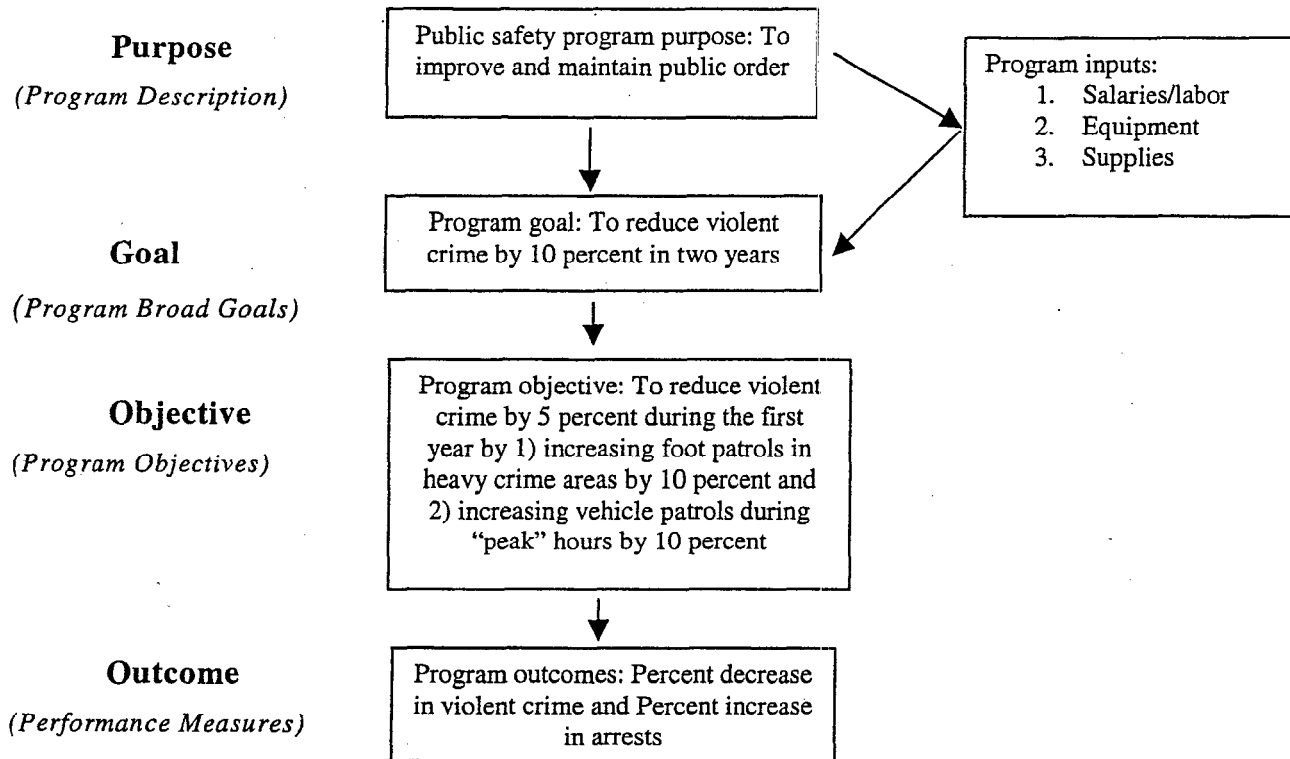
#### *How are program inputs and outcomes related to goals and objectives?*

Exhibit 3 illustrates the relationship between goals, objectives, inputs, and outcomes for a public safety program. As illustrated, inputs are necessary for executing the goal and objective, while the program outcomes indicate the extent to which the objective was achieved.



### EXHIBIT 3

#### Relationship Between Goals, Objectives, Inputs, and Outcomes



#### *What is performance measurement?*

**Performance measurement** is a process for determining how a program is accomplishing its mission, goals, and objectives through the delivery of products, services, or processes. In essence, performance measurement is a systematic process of evaluating outcomes of specific government programs and services that are delivered to customers with respect to effectiveness, efficiency, quality, and return on investment.

#### *What is a performance measure?*

A performance measure is a specific quantitative measure or qualitative assessment of results obtained through a program or activity. Put differently, a performance measure summarized the relationship between inputs (1) and outputs (2) in achieving outcomes with respect to effectiveness, cost (efficiency), and quality. Examples of performance measures for police service for the city of Colorado Springs are provided below:

Output	Outcomes	Efficiency
Number of persons crimes investigated: 1,192	Number of persons cases cleared: 963	Number of persons crimes investigated per detective: 52

**FYI...**

- (1) Inputs – taxpayer dollars.
- (2) Outputs – what did we provide with the taxpayer dollars?

***What is a performance standard?***

A performance standard is a generally agreed upon minimum level of performance that a government and/or its subdivisions should achieve per a given number of transactions. Performance standards are either set by a government or a professional association. For governments wishing to use established performance standards for particular functions (e.g., finance, human resources, parks and recreation, etc.), many professional organizations have data on their members from which "standards of performance" can be set. This data is generally acquired through professionally developed surveys.

***What are the most common types of performance measures used by governments?***

Performance measures can be classified into six categories:

1. **Effectiveness.** How well does a government or its departments accomplish its program and service delivery goals and objectives (e.g., the percent of total suspects apprehended by police officers in 1999)? Effective measures assess the degree to which predefined goals and objectives were met within the specified time frame.
2. **Efficiency.** How many resources does a government or its departments consume in achieving their program and service delivery goals and objectives (e.g., the average cost of apprehending suspects by police officers in 1999 given the department's resource allocation for criminal investigations)? Efficiency measures assess the amount of outcome produced per unit amount of resources allocated to performing a predefined goal and objective within a specified time frame.
3. **Outcomes.** Did the government's or its departments' programs and services meet their intended results (e.g., the increase of the police department's arrest rate of suspects from last year for the same amount of resources)?
4. **Outputs.** What did the program or service produce in relation to its inputs (e.g., the number of arrests made by police officers in 1999 given the department's resource allocation for criminal investigations)? Output measures assess the quantity of work performed.

5. Quality. Are internal and external clients satisfied with the performance of the government's programs and service delivery (e.g., the percent of citizens satisfied with the department's methods of apprehending criminal suspects)? Quality measures assess the level of satisfaction of either internal or external customers in relation to goods and services delivered to them.
6. Workload. How many transactions were performed per employee for a particular program or service activity (e.g., the number of cases solved per police detective)? Workload measures assess the level of productivity of program staff in providing goods and services to their customers.

Provided below are examples of public safety performance measures used by the state of Virginia.

Department	Effectiveness	Efficiency
Correctional Education		Cost per student achieving grade level gain
State Police	Number of arrests made by Violent Crime Strike Force	

### *What are the criteria for performance measures?*

To be acceptable, credible, and useful, performance measures need to satisfy the six criteria listed below. Performance measures should be:

- *Comprehensive*. Are the performance measures and their results derived from all of the relevant program and financial information, and do they capture all of the work processes necessary for achieving program outputs and intended outcomes?
- *Meaningful and understandable*. Are the performance measures and their results easily and intuitively understood?
- *Reliable*. Are the performance measures based on the same data sources and information so that they produce consistent results from period to period?
- *Simple*. Are the performance measurements easily calculated and interpreted?
- *Valid*. Do the performance measures accurately assess a program's outcomes and outputs in relation to its stated goals, objectives, and inputs?
- *Verifiable*. Do the performance measures provide an audit trail enabling a reviewer to verify the accuracy and timeliness of the source data?

By meeting these criteria, elected officials and program administrators are ensured that the performance measurement system produces results that are realistic and linked to specific, predefined program and service goals, objectives, and work processes.

### *Why are performance measures important?*

The public continues to believe that government is wasteful with taxpayers' monies and that it manages programs and services ineffectively and inefficiently. To address these concerns about how government manages its programs and services, governments use performance measures to assess:

- How well program goals and objectives are being met;
- How well programs and services are delivered to customers; and,
- Most importantly, whether the jurisdiction is achieving its intended outcomes.

Programmatically, performance measurements help to:

- Develop appropriate program initiatives to improve program performance and service delivery by reengineering work processes;
- Improve budgeting and planning by assessing customer demands for critical programs and services;
- Improve management practices by examining how well resources are being utilized to achieve strategic, performance, and/or process benchmarks;
- Improve program administration and service delivery by identifying deficiencies and implementing enhancement strategies;
- Provide objective feedback on program and service performance;
- Revise programs and services to meet customer demands and ensure quality; and,
- Strengthen accountability by demonstrating to elected officials, administrators, the media, and the public how well governmental departments use tax dollars to provide key programs and services.

### *What is a performance measurement system, and what does it assess?*

A **performance measurement system** is a comprehensive and systematic process of using performance measurements to assess, monitor, and improve the accomplishment of program and service delivery goals and objectives. A comprehensive performance measurement system consists of indicators that answer these questions;

- Are customers satisfied with the program's service delivery?
- Did the program produce outputs consistent with its goals, objectives, and inputs?
- What was the quantity of output in relation to its inputs?
- What were the program's outcomes?
- What were the program costs incurred producing the output?

#### **FYI...**

A performance measurement system is intended to provide accountability to citizens regarding the relationship between a program's inputs (tax dollars) and its ultimate purpose (delivery of services in a cost-effective manner that achieve the predetermined goals and objectives within the prescribed time frame). Essentially, did we hit the mark and, if not, why did we miss the mark?

## Barcala, Cheryl

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**From:** Barcala, Cheryl  
**Sent:** Monday, May 03, 2004 9:38 AM  
**To:** Ecton, Wayne  
**Subject:** performance measures

Councilman Ecton,

Thank you for taking the time to meet with me last Friday. Here is a draft of the performance measures that we discussed.

**Goal:** Complete audits according to schedule approved by the Audit Committee.

**Measure:** % of audits completed according to schedule approved by the Audit Committee.

**Goal:** Develop recommendations for improved productivity, cost savings, and improved internal controls

**Measure:** # of recommendations for improved productivity, cost savings and improved internal controls.  
% of recommendations accepted by management.

**Goal:** All senior level and above staff will have at least one professional certification.

**Measure:** % of staff at the senior level and above with at least one professional certification.

**Goal:** All staff will adhere to continuing education requirements as set out in the generally accepted government auditing standards.

**Measure:** % of staff adhering to generally accepted government auditing standards for continuing education.  
# of continuing education hours per audit staff

**Goal:** Draft audit report will be reviewed with management within one week of the exit conference.

**Measure:** % of draft audit reports reviewed with management one week of the exit conference.

**Goal:** Revisions, if necessary, will be completed within two weeks of 1st review with management.

**Measure:** % of required revisions completed within two weeks of 1st review with management.

**Goal:** Provide final draft of report to Audit Committee for review no later than 2 weeks after 1st review with management.

**Measure:** % of final drafts provided to the Audit Committee for review no later than 2 weeks after 1st review with management.

**Goal:** Provide final report to Council within 3 working days of receipt of management response.

**Measure:** % of final reports available to Council within 3 working days of receipt of management response.

### Points for Discussion:

#### *Regarding the issue of recommendations.*

The reporting standard for performance audits states that the report should include the objectives, scope and methodology; the audit results, including findings, conclusions, and recommendations, as appropriate; a reference to compliance with generally accepted government auditing standards; the views of responsible officials; and, if applicable, the nature of any privileged and confidential information omitted.

The standard goes on to state that, if warranted, auditors should make recommendations for actions to correct problems identified during the audit and to improve programs and operations. Auditors should make recommendations when the potential for improvement in programs, operations, and performance is substantiated by the reported findings and

conclusions. Recommendations should logically flow from the finding and conclusions and need to state clearly the actions to be taken. Recommendations to effect compliance with laws and regulations and improve internal control also should be made when significant instances of possible fraud, illegal acts or violations of provisions of contracts or grant agreements are noted or abuse or deficiencies in internal control are found.

Constructive recommendations can encourage improvements in the conduct of government programs and operations. For recommendations to be most constructive, they should be directed at resolving the cause of identified problems, action oriented and specific, addressed to parties that have the authority to act, practical and to the extent feasible, cost effective and measurable.

City ordinance Section 2- 126 states that reports shall include:

- a precise statement of the scope of the audit;
- a statement that the audit was performed in accordance with generally accepted auditing standards;
- a statement that an examination for compliance with applicable laws, policies and regulations was conducted and presentation of the finding associated with that examination is included;
- a statement of significant audit findings with statement of underlying cause, evaluative criteria used and current and prospective significance of the finding;
- a statement that internal control systems were examined where applicable a any material weaknesses found, if appropriate;
- Statements of response submitted by the audit agency
- Corrective actions taken or to be taken as a result of the audit findings and a time table for accomplishment
- Recommendations for additional necessary or desirable action.

Section 2-125 states that the agency response is to include agreement with the findings and recommendations or reasons for disagreement with findings/recommendations, plans for implementing solutions to identified problems and a time table to complete such activities.

The profession of internal auditing is built on a foundation of reporting findings and recommendations for improvement. The Institute for Internal Auditing ( the internationally recognized certification association) states that recommendations may suggest approaches to correct existing conditions or improve operations. Recommendations may suggest approaches to correcting or enhancing performance as a guide for management in achieving desired results and may be general or specific.

This is the approach that we have taken towards recommendations. If, in our professional opinion, there is a specific recommendation, we will discussion it with management and attempt to reach consensus on the approach to be taken. The agreed upon course of action will become the recommendation and management can define the timetable for implementation. If there are multiple approaches that will reach the same end result, we will make a recommendation that is general in nature (i.e. consider X or do Y or Z). Management can then respond with the approach that will be taken and the timetable.

If, however, the audit committee desires a different approach we can certainly implement any modification to the structure.

Cheryl

**Tracking:**

**Recipient**

Ecton, Wayne  
Council Email

**Delivery**

Delivered: 5/3/2004 9:38 AM  
Delivered: 5/3/2004 9:38 AM

**Read**

Read: 5/3/2004 1:12 PM